

2004-06 Operating and Capital Budget Development

As the Council staff works to develop recommendations for the 2004-06 budget, several issues or recommendations will be brought to the Council for discussion or action during the remaining Council meetings leading up to the November final recommendations. The following discussion items are included on this agenda: (1) revisions to benchmark institutions and mandated programs; (2) five working committees related to budget development; (3) special initiatives funding request guidelines and criteria revisions; (4) 2004-06 capital budget.

Operating Budget

Revisions to Benchmark Institutions and Mandated Programs

The *Points of Consensus*, a document approved by the Council at its February 2003 meeting, did not include a specific provision for changes to the institutions' benchmarks. However, the university presidents, the president of the KCTCS, and the Council president agreed that institutions could request limited changes to their benchmark lists.

Six universities and the KCTCS requested changes to their benchmark institutions. Northern Kentucky University, the University of Kentucky, and Lexington Community College chose not to request changes to their benchmark institutions.

During the past two months, the Council staff analyzed the institutions' requested changes using the same criteria from the two previous selection processes. A list of the selection criteria is attached (see Attachment A). The Council staff held meetings with each institution requesting a change in benchmark institutions. In addition, the University of Kentucky and the University of Louisville requested additions to their list of mandated programs, which are treated as a deduction in the benchmark funding model. Mandated programs are defined as special research and public service programs funded by state appropriations, local appropriations, or tuition and fees revenue at both Kentucky and the benchmark institutions, and the guidelines used to analyze the requested changes were from a previously commissioned study by

MGT of America in 2001. Institutions presented their requests and rationale for all changes at both the May Chief Budget Officers meeting and the June presidents meeting.

The Council staff then drafted preliminary recommendations regarding changes to benchmarks and mandated programs and provided the recommendations along with the Council's rationale to institutional presidents and staff members. The analysis and discussions with institutional representatives continued, and the presidents discussed the recommendations again at the July presidents meeting. After further discussion and analysis, the Council staff prepared its draft recommendations for Council consideration. Each institution's revised benchmark institutions and mandated program changes are proposed on pages 16-26 (see Attachment B).

Working Committees for 2004-06 Operating Budget Development

The Council developed several working committees to advise the Council concerning issues specific to the development of the 2004-06 budget. The Council will use the work of each of the committees regarding the various issues each represent in an advisory capacity as the budget recommendation is developed and to revise guidelines or criteria related to the specific area. The five working committees are as follows:

- (1) Endowment Match Program Committee
- (2) Funding Distribution Methodology Committee
- (3) Special Initiatives Funding Request Committee
- (4) Enrollment Growth and Retention Committee
- (5) Affordability (KHEAA) Committee

Each committee will address a specific set of issues and develop a set of options or guideline recommendations for the Council to consider leading up to the November final budget recommendations. The committees consist of staff members from the Council as well as institutional representatives and other governmental professionals with expertise in the particular area specific to the topics covered in the committees' scope of work.

The general timeline for the completion of the work of each committee is as follows:

June	2 meetings	Introductions, background of issues, scope of work, history—agendas to be discussed
July	At least 1 meeting	Agenda to be discussed
July 28	Council meeting	Study Session and Council meeting—Update on progress and work of committee—status report
August	2 meetings	Agendas to be discussed
September	Final meeting	Recommendations polished and finalized by committee
September	Council staff	Prepares written report/recommendations/summary of work of committee and draft staff recommendations
September 8	Presidents meeting and SCOPE meeting	Update and discuss with Presidents and SCOPE the work of committee and draft staff recommendations
September 21	Council meeting	Council action on final staff recommendation

A summary of the basic issues that each committee will be addressing is as follows:

(1) Endowment Match Program Committee

- ?? Deadline extension (bonds sold late - recommendation on extension)
- ?? Uses of funds - (possible focus on greater percentage of dollars to endowed chairs and professorships - as opposed to other three categories: fellowships, scholarships, and mission support)
- ?? Definition of mission support
- ?? Possible minimum match amounts for endowed chairs
- ?? Possible focus on programs of distinction and “university defined mission-critical areas of concentration”
- ?? Diversity plans reporting

(2) Funding Distribution Methodology Committee

- ?? Revision of *Points of Consensus* to include methodology for less than full benchmark funding scenarios
- ?? Revision of *Points of Consensus* to include methodology for distributing budget cuts

(3) Special Initiatives Funding Request Committee

- ?? Review previous evaluation criteria and priorities
- ?? Discuss limitations on requests
- ?? Recommendations for changes to criteria and priorities/limitations

(4) Enrollment Growth and Retention Committee

- ?? Discuss previous methodology for distribution of funds and enrollment projections
- ?? Discuss recommendations for changes in guidelines and distribution methodology

(5) Affordability (KHEAA) Committee

- ?? Study access issue and affordability - KHEAA estimates, tuition rates, etc.

Special Initiatives Funding Request Guidelines and Evaluation Criteria

The *Points of Consensus* document stipulates that the institutions will be given an opportunity to submit requests for special and meritorious initiatives for the 2004-06 biennium, and that the guidelines and evaluation criteria governing distributions for such initiatives will be promulgated well in advance. It reaffirms the Commonwealth's commitment to enhancing Kentucky State University through its partnership agreement with the U.S. Office for Civil Rights. Finally, it allows the institutions to request increases in General Fund appropriations for mandated programs that have been factored out of the benchmark process.

Working within the framework of the *Points of Consensus*, the Council staff established the Special Initiatives Funding Request Committee as referred to earlier. Even though the general timeline for the working committees' recommendations is for the work to be completed in September, it is intended that the work of this committee finish earlier in order to give the institutions time to develop funding requests according to the newly developed guidelines and criteria. These requests have normally been due to the Council on September 1 of each year. The working draft is to be shared with the Chief Budget Officers during their July 17 meeting. It is expected that the committee's work could result in a final draft of recommendations regarding special initiatives funding request in time to be included on the July 28 Council agenda, though not in time to be included in this agenda book. Following discussions of the guidelines by the working committee, the institutional presidents, and the Chief Budget Officers, the Council staff will, if completed

in time, present to the Council for discussion a draft of the proposed 2004-06 Special Initiatives Funding Request Guidelines and Evaluation Criteria.

2004-06 Capital Budget

Each public university and the Kentucky Community and Technical College System were required to submit a 2004-2010 capital plan to the Capital Planning Advisory Board (CPAB) by April 15, 2003. The projects identified in the first biennium of the 2004-2010 capital plans generally evolve into the 2004-06 capital requests. The institutions are to submit their 2004-06 capital requests to the Council on or before July 15. A summary of institutional requests by fund source is provided as Attachment C. The Council will act on the 2004-06 capital recommendation in November.

Priorities

For the 2004-06 capital budget, the Council staff tentatively proposes the following capital priorities, listed in rank order of importance, to be financed with state General Funds:

1. Projects addressed in the partnership with the U.S. Department of Education, Office for Civil Rights
2. Capital renewal and maintenance
3. Equipment replacement program
4. Technology initiatives
5. Major renovations of education and general (E&G) facilities
6. Construction of new (E&G) facilities or expansion of existing facilities

There was not sufficient growth in the state General Fund to allow the 2002-04 capital priorities to be authorized by the 2002-04 capital budget (HB 269). The 2002-04 priorities were similar to the priorities listed above and included a capital renewal and maintenance pool, technology initiatives, renovations, and new construction. As the Council completes its review of institutional capital requests, these priorities may change.

Space Planning Guidelines

According to the *Points of Consensus*, the Council will evaluate construction of new facilities or expansion of existing facilities using the revised Kentucky Space Needs Model and the recommendation of a professional consultant with regard to quality of existing space.

At its July 30, 2001, meeting, the Council adopted revised space planning guidelines that generally address the areas of research space and condition of space including fitness for purpose. The Council staff will use the revised

guidelines to develop the 2004-06 capital recommendations. Since the 2002-04 recommendations of capital projects to be funded with state General Funds were not authorized by HB 269, the evaluation report on those projects continues to be valid and will be updated and used to develop the 2004-06 capital recommendations.

The Council may wish to discuss the staff's proposed priorities to be financed with state General Funds.

2004-2010 Six-Year Capital Plan

State law requires each agency, including the Council and the public universities and the KCTCS, to submit a six-year capital plan to the Capital Planning Advisory Board in each odd-numbered year. The plan can be revised until October 2003. The Council will approve a 2004-06 capital recommendation in November.

Each biennium the CPAB holds hearings to discuss the capital plans of all state agencies and is scheduled to review the 2004-2010 capital plans of the postsecondary institutions on August 1, 2003. The CPAB has asked Dr. Layzell to discuss the Council's plan and to provide a statewide perspective on the highest priority capital needs of the system of postsecondary education.

The Council staff considered the actions of the General Assembly in adopting the 2002-04 budget, HB 269, when developing the agency plan and identifying the statewide priorities for the 2004-2010 capital plan that were submitted to the Capital Planning Advisory Board April 16, 2003. The priorities established in the 2004-2010 capital plan are similar to those mentioned in the previous section on priorities related to the 2004-06 capital budget.